

Exhibit No.:
Issues: Rate Design
Witness: James C. Watkins
Sponsoring Party: MO PSC Staff
Type of Exhibit: Direct Testimony
Case No.: EC-2002-1
Date Testimony Prepared: July 2, 2001

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY
OF

JAMES C. WATKINS

**UNION ELECTRIC COMPANY,
D/B/A AMERENUE**

CASE NO. EC-2002-1

Jefferson City, Missouri
July, 2001
Exhibit No. 38
Date 7/10/02 Case No. EC-2002-1
Reporter Kem

DIRECT TESTIMONY

OF

JAMES C. WATKINS

UNION ELECTRIC COMPANY, D/B/A AMERENUE

CASE NO. EC-2002-1

1 Q. Please state your name and business address.

2 A. My name is James C. Watkins and my business address is Missouri Public
3 Service Commission, 200 Madison Street, P. O. Box 360, Jefferson City, Missouri
4 65102.

5 Q. What is your present position with the Missouri Public Service
6 Commission (Commission)?

7 A. I am a Regulatory Economist in the Energy Department of the Operations
8 Division.

9 Q. Please review your educational background and work experience.

10 A. I have a Bachelor of Arts Degree in Economics from William Jewell
11 College, a year of graduate study at the University of California at Los Angeles in the
12 Masters Degree Program, and have completed all requirements except my dissertation for
13 a Ph.D. in Economics from the University of Missouri-Columbia. My previous work
14 experience has been as an Instructor of Economics at Columbia College, the University of
15 Missouri-Rolla, and William Jewell College. I have been on the Staff of the Missouri
16 Public Service Commission (Staff) since August 1, 1982.

Direct Testimony of
James C. Watkins

1 Q. What is the Staff's recommendation regarding the rate design that should
2 be implemented in this case for the Union Electric Company, d/b/a AmerenUE ("UE" or
3 "Company")?

4 A. Given the Staff's estimate of UE's excess earnings, the Staff reviewed
5 UE's rate design, and the Stipulation And Agreement in the rate design Case No. EO-96-
6 15 that was established as a result of the Case No. ER-95-411 Stipulation And Agreement
7 respecting the first experimental alternative regulation plan ("EARP") applicable to UE.
8 The Stipulation and Agreement in Case No. EO-96-15 determined the distribution of the
9 revenue reduction and rate design changes that would be made following the end of the
10 third year of the first EARP. One of the cornerstones of the Case No. EO-96-15
11 Stipulation And Agreement was that in effectuating the rate reduction, no class's revenue
12 requirements would be increased. This restriction caused the implementation of the
13 revenue reduction to result in an inability to fully achieve the following two rate design
14 goals established in that agreement:

- 15 1. Moving class revenue requirements closer to class cost of
16 service by applying the first \$25,000,000 of the rate
17 reduction to only the non-residential, non-lighting classes.
18
- 19 2. Setting the rate differential between the Large General
20 Service rate and the Small Primary Service rate at the cost-
21 of-service differential.
22

23 The Staff recommends that, with the rate reduction proposed in this instant case,
24 the Commission would now fulfill these rate design goals that it was not able to
25 implement in Case No. EO-96-15. Specifically, the following rate design changes should
26 be made:

Direct Testimony of
James C. Watkins

- 1 1. The remainder of the first \$25,000,000 of the rate reduction
2 contemplated in the rate design case (approximately \$8.7
3 million) should be distributed to the non-residential, non-
4 lighting customer classes by an equal percentage of
5 weather-normalized current rate revenues.
6
- 7 2. The rate reduction to the Large General Service/Small
8 Primary Service Class should first be applied to the Large
9 General Service Rate Schedule to adjust its demand charges
10 to be \$0.20 higher than the corresponding Small Primary
11 Service Rate Schedule demand charges and its energy
12 charges to be 1.01% higher than the corresponding Small
13 Primary Service energy charges.
14

15 After satisfying both of these goals, the remainder of the rate reduction
16 should be applied as an equal percentage reduction to each rate component, except
17 the customer charges, of each rate schedule.

18 Q. Why is the Staff not recommending any reduction in customer
19 charges for any class of service?

20 A. The customer charges that are currently in effect are below the
21 costs for billing, meter reading and electric plant that is customer specific (e.g.,
22 meters and service lines). With a lower rate of return, those costs have decreased,
23 but not to the point where a decrease in customer charges would be justified.

24 Q. Has the Staff developed the specific rates that would result from adopting
25 the Staff's rate design recommendation and the Staff's recommended level of revenue
26 reduction?

27 A. Yes. In her direct testimony in this case, Staff witness Janice Pyatte
28 presents the specific rates that would result. Ms. Pyatte developed the weather-

Direct Testimony of
James C. Watkins

1 normalized current rate revenues and billing units required to implement the Staff's rate
2 design recommendation.

3 Q. Is the Staff's rate design recommendation consistent with the cost of
4 serving each customer class?

5 A. The summary of the results of the Staff's customer class cost-of-service
6 study filed on March 19, 1999 in Case No. EO-96-15 is attached to this testimony as
7 Schedule 1. The rate design goals set out in the Case No. EO-96-15 Stipulation And
8 Agreement continue to be consistent with the cost of serving UE's various customer
9 classes while at the same time remedying any major discontinuities in the existing rate
10 designs between classes.

11 Q. Does this conclude your testimony?

12 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

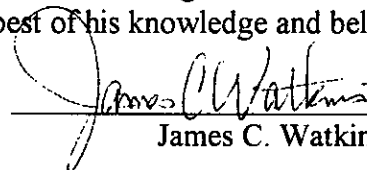
The Staff of the Missouri Public Service)
Commission,)
Complainant,)
vs.)
Union Electric Company, d/b/a)
AmerenUE,)
Respondent.)

Case No. EC-2002-1

AFFIDAVIT OF JAMES C. WATKINS

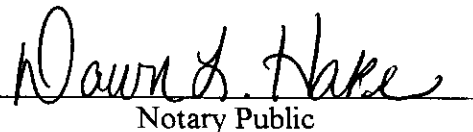
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James C. Watkins, of lawful age, on his oath states: that he has participated in the preparation of the foregoing written Direct Testimony in question and answer form, consisting of 4 pages of testimony to be presented in the above case, that the answers in the attached written Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.


James C. Watkins

Subscribed and sworn to before me this 27th day of June 2001.

My commission expires _____
DAWN L. HAKE
Notary Public - State of Missouri
County of Cole
My Commission Expires Jan 9, 2005


Notary Public

STAFF CUSTOMER CLASS COST-OF-SERVICE STUDY UNION ELECTRIC COMPANY Case No. EO-96-15							Combined
COSTS BY FUNCTIONAL CATEGORY			RES	SGS	LGS & SPS	LPS	SGS, LGS & SPS
PRODUCTION	CAPACITY		\$257,191	\$71,672	\$226,486	\$66,417	\$298,159
PRODUCTION	ENERGY		\$211,432	\$62,676	\$210,662	\$64,938	\$273,338
TRANSMISSION	CAPACITY		\$22,814	\$6,323	\$19,875	\$5,804	\$26,197
DISTRIBUTION	SUBSTATIONS	DEMAND	\$38,552	\$9,829	\$22,839	\$4,925	\$32,667
							\$0
DISTRIBUTION	POLES AND CONDUCTORS	CUSTOMER	\$40,192	\$4,671	\$324	\$2	\$4,996
DISTRIBUTION	POLES AND CONDUCTORS	PRIMARY DEMAND	\$77,618	\$19,788	\$45,982	\$9,916	\$65,771
DISTRIBUTION	POLES AND CONDUCTORS	SECONDARY DEMAND	\$23,099	\$6,015	\$8,664	\$0	\$14,679
							\$0
DISTRIBUTION	TRANSFORMERS	CUSTOMER	\$16,921	\$1,967	\$126	\$0	\$2,093
DISTRIBUTION	TRANSFORMERS	DEMAND	\$8,146	\$2,121	\$3,055	\$0	\$5,177
							\$0
DISTRIBUTION	INSTALLATIONS		\$0	\$0	\$0	\$3,444	\$0
DISTRIBUTION	SERVICES	CUSTOMER	\$9,980	\$1,160	\$74	\$0	\$1,234
DISTRIBUTION	SERVICES	DEMAND	\$12,782	\$2,569	\$3,073	\$0	\$5,642
DISTRIBUTION	METERS		\$13,867	\$3,392	\$1,152	\$810	\$4,544
							\$0
	METER READING		\$13,948	\$2,418	\$3,450	\$20	\$5,867
	CUSTOMER SERVICE, SALES, COLLECTION, ETC.		\$24,670	\$4,276	\$15,269	\$88	\$19,546
	INTEREST ON CUSTOMER SURETY DEPOSITS		\$13,231	\$758	\$426	\$0	\$1,184
	EPRI		\$1,983	\$586	\$1,894	\$617	\$2,479
	ASSIGNED RESIDENTIAL		\$74	\$0	\$0	\$0	\$0
	TOTAL COST OF SERVICE		\$786,501	\$200,219	\$563,352	\$156,981	\$763,572
	REVENUES						
	FIRM RATE REVENUE		\$742,338	\$214,090	\$563,980	\$148,434	\$778,070
	NET LIGHTING RATE REVENUE		\$10,817	\$2,754	\$7,748	\$2,159	\$10,502
	INTERRUPTIBLE CREDITS		(\$1,314)	(\$334)	(\$941)	(\$262)	(\$1,276)
	OTHER REVENUE - LIGHTING CLASS		\$212	\$54	\$152	\$42	\$206
	OTHER REVENUE - STUDIED CLASSES		\$9,412	\$2,661	\$4,335	\$718	\$6,995
	TOTAL REVENUE		\$761,465	\$219,224	\$575,273	\$151,091	\$794,497
	REVENUE DEFICIENCY		\$25,036	(\$19,005)	(\$11,921)	\$5,890	(\$30,925)
	% INCREASE (DECREASE) IN RATES REQUIRED TO GENERATE REVENUES EQUAL TO COST OF SERVICE		3.37%	(8.88%)	(2.11%)	3.97%	(3.97%)